

Capital Market Expectations

Current Levels: (12/31/2017) S&P 500 2,674 Ten Year Treasury 2.40% Inflation: 2.20%

Long-Term Capital Markets Characteristics

	Current	Historic Range
U.S. Investment Grade Credit Spread	50-100 bps	50-100 bps
U.S. Equity Risk Premium	3-5%	4-6%
U.S. Equity Dividend Yield	1.5-2.0%	1.5-3.0%
S&P 500 Long-Term Earnings Growth	4-7%	6-7%
Current P/E 2018 (S&P 500)	18.3x	
Future P/E 2019 (S&P 500)	16.6x	
Fair Value P/E	19.0x	15-18x

Long-Term 10-Yr Total Return Expectations

	Current	Historic Range
Cash	0-1%	2-3%
Treasuries	0-2%	3-5%
Investment Grd Corporates	1-3%	4-6%
U.S. Equities	5-9%	9-11%
EAFE Equities	6-10%	9-11%
Emerging Market Equities	7-11%	9-12%
Alternative Investments	4-8%	4-9%

S&P 500 Index



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Capital Markets Forecasts 2018-2019

S&P 500 (2018)	Earnings	\$150-157	Fair Value Range	2,700 - 3,100
S&P 500 (2019)	Earnings	\$164-170	Fair Value Range	2,875 - 3,325
Ten Year Treasury	Range	2.00 - 3.50%	Year-End Target	3.00%

Key Assumptions

1. U.S. GDP growth ranges 2.25-3.00% over 2018-19.
2. International GDP growth continues to improve off 2016 base - global economic growth “synchronizes”.
3. U.S. corporate profit growth continues to expand at high-single digit rate, helped by corporate tax rate cuts.
4. Interest rates rise on balance in 2018-19 as Fed continues to tighten monetary policy.
5. Domestic stocks remain attractive long-term; implied nominal total returns of 5-9%.
6. Equity emphasis: favor international over domestic, value over growth, small/midcap over large, based on YE '17 valuation.
7. Equity selection focus: revenue, earnings, dividend, and free cash flow growth; durable franchises; attractive valuation metrics.
8. Volatility: expect material increase in short term stock price.
9. Stocks remain more attractive than bonds given low interest rates, narrow credit spreads, risk of higher interest rates and inflation.

